

IDAHO FORECAST DESCRIPTION

The Forecast Period is the First Quarter of 2008 through the Fourth Quarter of 2011

Idaho's economic outlook has been scaled back compared to the January 2008 *Idaho Economic Forecast*. This change largely results from the anticipated weaker showing for the national economy. For example, real GDP was projected to average 2.6% growth over the next few years in the previous forecast. In the current forecast real GDP advances just 2.3% annually. While both forecasts have a near-term slowdown, it is more severe in the current one. In the previous forecast, real GDP growth slows (but does not stall) in the first half of this year then recovers and advances at about 3.0% through 2011. In the current forecast, the economy shrinks in the first half of this year and its recovery is not as steady. As a result, real output does not grow consistently until after the first quarter of 2009, about a half year later than in the January 2008 forecast.

One of the most significant differences between the previous and current Idaho forecasts is caused by the weaker national economic trajectory. There are about 7,800 fewer Idaho jobs in 2008 in the current forecast compared to the previous one. This gap grows each of the next three years, so that there are nearly 12,400 fewer jobs in 2010 than in the previous forecast. Projected goods-producing employment is down about 4,000 jobs, with the computer and electronics and construction sectors combined accounting for 90% of the difference between forecasts. The more pessimistic projection for construction occurs because the housing retrenchment is anticipated to be deeper than in the previous forecast. There are nearly 2,700 fewer housing starts in 2010 in this forecast compared to the previous one.

The Gem State's nongoods-producing sector accounts for two-thirds of 2010's projected job gap, but it is less concentrated than in the goods-sector. For example, projected retail trade employment is down by roughly 2,800 jobs in the current forecast, which is about 33% of the nongoods-producing job gap. Services accounts for about 50% of the difference between the current and previous forecasts, but this difference is dispersed over several employment categories. Financial activities employment is hit hardest, reflecting the troubles in the housing market. The least affected category is information services, which is down just 41 jobs compared to the previous forecast in 2010.

Projected Idaho personal income displays a similar pattern as nonfarm employment. It too is lower in 2008 and this gap increases through 2010. Specifically, the gap between the current and previous Idaho nominal personal income goes from \$1.07 billion in 2008 to \$2.00 billion in 2010. The gap for Idaho real personal income swells from \$1.32 billion to \$2.09 billion over the same period. About 60% of the anticipated gap in 2010 is due to lower wage and salary payments, the product of lower employment and average annual wages that are down about \$1,100 compared to the previous forecast.

Idaho's economy should make some headway in 2011; the employment gap between forecasts shrinks to 9,700 jobs in 2011. Unfortunately, the wage gap is forecast to expand, which increases the forecasted wages and salary payments difference in 2011. As a result, the gap between the current and previous nominal personal income forecasts widens to \$2.07 billion in 2011. Likewise, the difference between the current and previous Idaho real personal income forecasts also increases in 2011.

While the current Idaho forecast is gloomier than its predecessor, it remains brighter than the current national outlook. During 2008 to 2011, Idaho nonfarm employment growth is forecast to average 1.9%, which is more than twice as fast as the national average. In addition, Idaho real personal income is projected to increase 3.3% annually, while U.S. real personal income is expected to grow 2.5% per year.

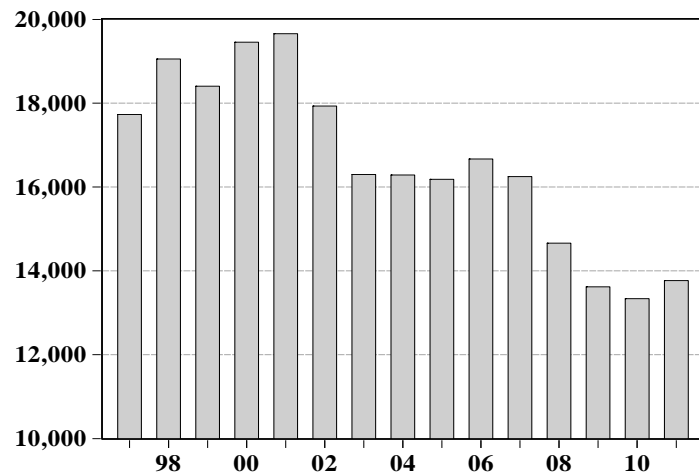
SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: Idaho's computer and electronics payroll is expected to continue shrinking through most of the forecast period, eventually costing this sector its spot as the state's top manufacturing employer. This sector shed about 400 jobs in 2007.

Despite this loss, it was still the top manufacturing employer with nearly 16,250 jobs. The next largest manufacturing employer was the food processing sector that had 14,920 jobs during that same year. It should be pointed out that the year-over-year consumer and electronics job loss understates this sector's recent travails.

This is because the annual change dilutes the significant job losses in the second half of 2007. A review of the quarterly data provides a more accurate picture of this sector's current state. Namely, it shows employment dropped from just over 17,000 jobs in the first quarter of 2007 to about 15,300 jobs in the fourth quarter. Of these approximately 1,700 jobs lost, about 1,500 were shed in the second half of last year. A large part of this decrease reflects Micron Technology's reduction of 1,100 workers. Company officials made this move to reduce production costs in order to return to profitability. Micron Technology lost \$158 million in the last quarter of its fiscal year 2007, and a total of \$320 million last year. Losses continued in the current fiscal year, as the company continued to be dogged by low prices for its memory products due to the worldwide glut of these items. It reported the average selling prices for the company's DRAM and NAND Flash memory products decreased 15 percent and 30 percent, respectively, in the second quarter compared to the first quarter. Comparing the second quarter to the same quarter of the previous fiscal year, average selling prices for the company's DRAM and NAND Flash memory products decreased approximately 60 percent and 70 percent, respectively. Unfortunately, the worldwide imbalance of supply and demand that has depressed prices is not expected to right itself quickly. In addition, this sector will be hamstrung by relatively lackluster U.S. business investment. This sector received another setback when ON Semiconductor announced it was reducing employment at its newly acquired AMIS Semiconductor plant in Pocatello by about 200 jobs over the next 18 to 24 months. Not all the high-tech recent news has been bad. Nordic Windpower, Limited, a wind turbine manufacturer, plans to locate a plant in Pocatello. Its plan calls for it to hire 160 workers within the next couple of years. In addition, Hoku Scientific is building a \$400 million dollar plant in the same city that is nearly twice as large as had been originally planned to accommodate stronger-than-anticipated demand for the polysilicon it produces. On an annual basis, Idaho computer and electronics employment will drop 9.8% this year, 7.1% next year, 2.1% in 2010, and increase 3.3% in 2011. As a result of these declines, this sector will cede its title as the state's largest manufacturing sector to the food processing sector in this year.

Idaho Computer and Electronic Products Employment



Logging and Wood Products: Up until recently, strong demand by the booming U.S. housing sector caused Idaho lumber and wood products employment to expand despite long-term supply trends that weigh this sector down. These factors contributed heavily to the loss of nearly one in four logging and

Idaho Wood Product Employment and U.S. Housing Starts

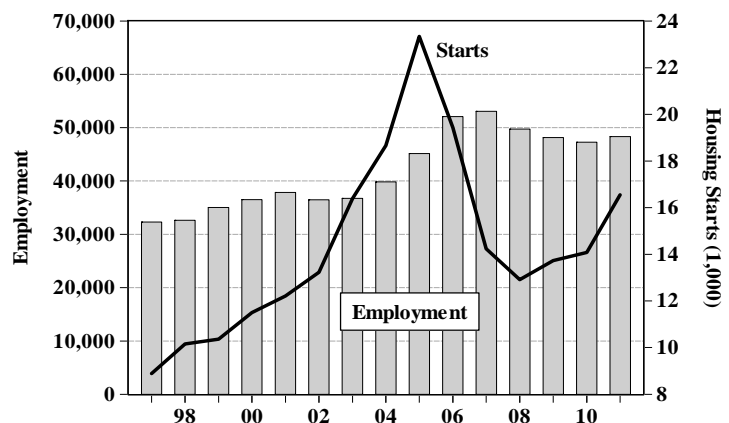


wood products jobs from 1996 to 2006. The strong housing sector came to the rescue in 2004, causing it to post its first significant gain in six years. Employment continued to rise in the next two years, topping out at just over 10,000 jobs in 2006. However, after expanding for five years, U.S. housing starts slipped 12.6% in 2006 and another 25.8% in 2007. Idaho logging and wood products followed suit, and suffered a 4.6% decline in 2007. As demand continues ebbing, supply factors will once again dominate this sector's future. The biggest challenge Idaho's lumber and wood products sector faces is the dwindling timber supply from public forests.

According to U.S. Forest Service estimates, the harvest from Idaho national forests fell by 74% from 1996 to 2005. As a result, the national forests' share of Idaho's timber harvest shrank from 23.9% in 1996 to 8.4% in 2005. This decline resulted in the closure of several older mills around the state. However, these closures help increase the industry's efficiency. Thus, production was virtually the same in both years even though employment was 16.5% lower in 2006 than it was in 1996. Despite the industry's downsizing, excess capacity remains a challenge. It is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. Idaho lumber and wood products employment is forecast to be 9,573 jobs in 2007; 8,815 jobs in 2008; 8,236 jobs in 2009; 8,932 jobs in 2010; and 9,624 jobs in 2011.

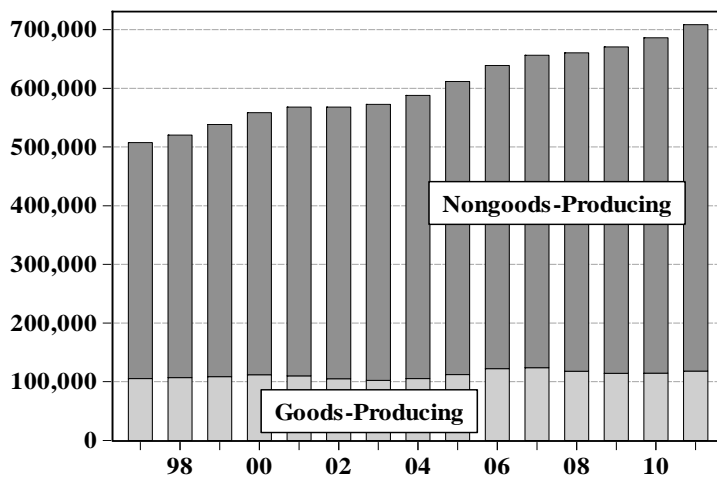
Construction: This sector's cyclical peak has passed and its future performance will be subdued compared to its strong showing in recent years. Idaho construction employment enjoyed several quarters of double-digit growth that culminated with a record 53,447 jobs in the first quarter of 2007. This statistic alone does not provide an adequate measure of the strength and duration of this expansion. One can see this by reviewing the annual job data. Remarkably, Idaho construction employment has increased in 15 of the 16 years since 1991—the most consistent showing among the state's goods-producing sectors. During this period the construction payroll exploded from 20,350 to 53,068, which is a 6.2% average annual growth rate. To provide some perspective, Idaho total nonfarm employment grew an average of 3.2% annually during this time. The construction sector's success should come as no surprise to those who follow the state's housing activity. Fueled by strong population growth, the number of Idaho housing starts increased from about 6,000 units in 1991 to a high of about 23,300 units in 2005. It declined to 19,428 the next year, but construction employment continued to grow thanks to

Idaho Construction Employment and Housing Starts



strong nonresidential building in 2006. Idaho construction employment began slipping in 2007, going from 53,447 jobs from its start to 52,944 jobs at its finish. It is expected to gradually decline over most of the next few years, as the number of housing starts hovers well below its recent peak. Employment's orderly retreat from its acme reflects the fact Idaho demand and supply balance is in better shape than states which were closer to the crest of the housing tidal wave. The number of housing units started in Idaho is forecast to be 12,913 units this year, 13,727 units next year, 14,077 in 2010, and 16,544 in 2011. Gem State construction employment is forecast at 49,718 jobs in 2008 and 48,339 in 2011. This number deserves some perspective. While employment falls below its high of 53,068 jobs in 2007, it remains higher than its peak reached as recently as 2005.

Idaho Nonfarm Employment



Nongoods-Producing Industries:

Idaho's largest private employment sector, nongoods, will provide an important safety net to anticipated job losses in other sectors of the state's economy. Overall, Idaho private nongoods employment should expand by nearly 54,600 jobs from 2007 to 2011, which more than offsets the forecasted 5,500-job loss in the goods-producing (manufacturing, mining, construction) category. The nongoods-producing sector accounted for roughly 87% of last year's job gain. Industries in this sector can be divided into two broad categories: services and trade. The services category had 303,843 employees in 2007 and there were 111,493 trade jobs. The services

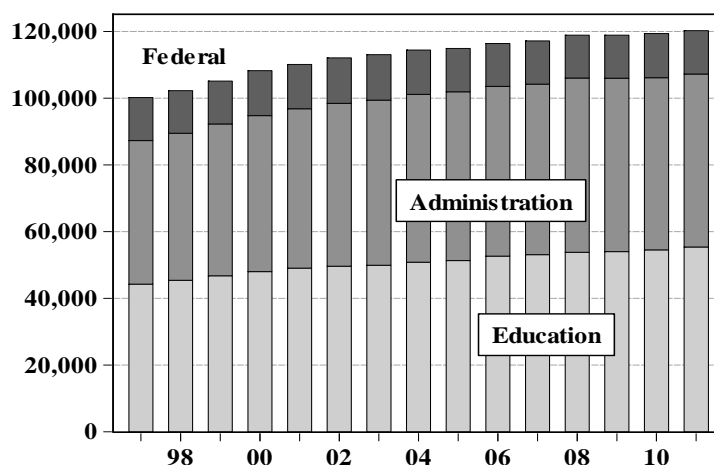
category consists of information services; financial activities; transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. Trade is divided into retail and wholesale categories. Services employment has traditionally been the faster growing of the categories, advancing an average of 3.7% annually over the last five years versus 2.8% for trade employment. One of the services category's strongest performers is professional and business services. This category's employment should expand an average of 3.9% per year over the forecast period. Another strong performer is education and health services. An interesting trait of this category is that it is driven more by demographics than economics, so it is relatively immune to business cycle swings. This category should add jobs at a 3.3% average annual pace from 2007 to 2011. Leisure and hospitality services should grow 3.1% annually over the same period. Financial services employment will feel the impact of the cooling local housing market. After expanding by an average of around 6.5% in both 2005 and 2006, its payroll growth will slow to 1.6% annually over the forecast period. Transportation, warehousing, and utilities sector employment will stall due to the headwinds of the inclement housing sector. Other services will expand. Information service employment should rise at a 2.1% annual pace. Employment in the miscellaneous services category accelerates over the forecast period. The trade sector's employment should grow an average of 3.3% per year.

Government: Idaho public employment growth is expected to slow over the next few years, along with the state's population. The positive correlation between population and government employment can be gleaned from the historical data. From 1991 to 2000, Idaho's population increased about 2.5% per year. Over this same period, Idaho state and local government expanded 3.0% annually. This relationship is

not coincidental. The demands of the growing population puts pressure on existing government resources, so government employment expands to meet this demand. If population growth slows, so does government employment. For example, population growth slowed to a 1.7% annual pace from 1999 to 2004. State and local government employment growth followed suit, slowing to an average 1.9% annual pace. It should be pointed out that most of the state's population swings are due to changes in migration. For example, Idaho's population expanded by 1.6% in 2002. In that year net-inmigration was about 10,000 persons, or about half of the

increase. In 2005, net-inmigration more than doubled to 24,300 persons (two-thirds of the increase), and the total population surged 2.7%. As Idaho's economy cools, net migration will fall to its lowest point in 2009, accounting for just under half of that year's population growth. Idaho's population is forecast to increase 2.2% in 2008, 1.8% in 2009, and about 2.0% in both 2010 and 2011. Idaho state and local government employment is projected to rise about 0.7% annually over this period. However, growth rates will differ between the education- and noneducation-related components. Idaho education employment is expected to advance about 1.1% per year from 2007 to 2011. During this same period, noneducation-related government employment should expand just under 0.3% annually. Federal government employment in Idaho has hovered near 13,000 jobs over the last few years, and it is projected to continue doing so over most of the forecast horizon. However, it should rise above 13,000 jobs in 2010, when hiring for the U.S. census takes place.

Idaho Government Employment



Mining: High metal prices have had a two-prong, positive impact on Idaho's mining sector. First, they have turned around this sector's employment situation. Previous to 2003, Idaho mining employment decreased for five years, dropping from nearly 3,000 jobs in 1997 to about 1,760 jobs in 2002. This downward streak ended in 2003 when mining employment grew by 1.5%. This small increase proved to be the first step in an expansion that would see employment eventually top 2,600 jobs in 2007. Beginning this year, the cooling U.S. economy will begin to weigh down this sector's job prospects. Specifically, Idaho mining employment is projected to rise to about 2,700 jobs, then fall to about 2,500 jobs in the later years of the forecast. Second, higher metal prices have increased expansion and exploration. Using the record profits it earned the last couple of years, Hecla Mining is expanding production at and exploration around its Lucky Friday Mine, where it employs 200 people. U.S. Silver Corp. is mining new finds at the Galena Mine, where another 200 people work, and it now is exploring the feasibility of reopening the Coeur and Dayrock mines. SNS Silver plans to spend \$3.5 million exploring the Crescent Mine. New Jersey Mining Co. is exploring at the Golden Chest, and its potential looks enormous. Timberline Resource Corp., headquartered in Coeur d'Alene, is exploring the Snowstorm, a historic silver-copper mine, and adjoining properties. Not all of the new activity is taking place north of the Salmon River, however. Standard Silver Corporation of Texas acquired the King Gold Mine that is 50 miles north of Boise. The J.R. Simplot Company is exploring for phosphate in the Dairy Sink Line area near the southeastern corner of the state.

Food Processing: After sliding for a decade, food processing employment grew in 2007. This is the first step in a gradual march that will once again make it the state's largest manufacturing employer. This improvement is not surprising to anyone who monitors this sector. More recently, about 400 jobs were lost when the Swift and Company beef processing plant closed. Fortunately, the former Swift and Company beef processing plant has been reopened by XL Foods, Inc. Gossner Foods, Inc. opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. Brewster Dairy, Inc. has taken over the former Kraft plant in Rupert.

Marathon Cheese is building a \$27-million plant in Mountain Home that will employ 250 workers. The plant's employment should climb to twice that many jobs in five years. Another new plant is High Desert Milk in Burley. When completed, this plant will employ 30 workers to manufacture powdered milk. Idaho Milk Products broke ground on a 180,000-square-foot facility in Jerome in late October. Once operational, the plant will process about 3 million gallons of milk per day into protein powders, lactose permeate, and cream. This recovery is important because food processing is an essential part of the Gem State's economy. This sector had 14,700 jobs in 2006, making it the state's second largest manufacturing employer. Other measures also point to its importance. The value of food manufacturing output accounted for more than half (55.7%) of the total Idaho nondurable manufacturing output from 1997 to 2004 and about 2.6% of the state's total gross domestic product. Idaho food processing employment is forecast to fall 1.3% this year, but increase 0.8% next year, 1.7% in 2010, and 1.5% in 2011.

Idaho Food Processing Employment

